

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

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P R 301649Z DEC 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 6439

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

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AMCONSUL BORDEAUX

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AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 32716, DECEMBER 15, 1975

1. SUMMARY. AS END-OF-YEAR ECONOMIC ASSESSMENTS
ABOUND IN FRENCH PRESS, GOF SPOKESMEN PUT THEIR
EMPHASIS ON BRIGHTER PROSPECTS FOR 1976. ACCORDING
TO FINMIN FOURCADE, INFLATION SHOULD DECELERATE,
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UNEMPLOYMENT SHOULD DIMINISH AND "A CLEAR REVIVAL"

SHOULD EMERGE IF FRENCHMEN WILL ONLY BE PATIENT. OTHER ANALYSTS, HOWEVER, POINT TO LIKELIHOOD OF A RENEWED BURST IN PRICE INFLATION IF FRENCH INDUSTRY SEEKS TO RECOVER FROM SHARP SETBACK IN CORPORATE PROFITS DURING 1975, AND OF A CONSEQUENT DETERIORATION IN FRANCE'S EXTERNAL ACCOUNTS. FOREIGN TRADE ACCOUNT NEVERTHELESS APPEARS CERTAIN TO END 1975 IN COMFORTABLE SURPLUS; SEASONALLY-ADJUSTED EXPORTS JUMPED 6 PERCENT IN NOVEMBER, WHILE TRADE SURPLUS FOR FIRST 11 MONTHS OF 1975 EXCEEDED 6 BILLION FRANCS. END SUMMARY.

2. FOURCADE REMAINS HOPEFUL FOR 1976 -

FRANCE'S ECONOMY IS SHOWING SIGNS OF A YEAR-END UPTURN AND SHOULD ACHIEVE "A CLEAR REVIVAL IN 1976," ACCORDING TO FINANCE MINISTER FOURCADE. ADDRESSING SENATE ON DECEMBER 17, FOURCADE ALSO SAID HOUSEHOLD CONSUMPTION HAS PICKED UP SUBSTANTIALLY SINCE MID-SUMMER, AS REFLECTED IN 12 PERCENT GROWTH IN VALUE-ADDED TAX RECEIPTS DURING SECOND HALF, WHILE PRICE INFLATION OVER THE COURSE OF 1975 SHOULD COME TO LESS THAN 10 PERCENT. REGARDING UNEMPLOYMENT SITUATION, FOURCADE NOTED "ENCOURAGING" DECELERATION IN NUMBER OF UNFILLED JOB REQUESTS AND SAID GOV AWAITING DECEMBER AND JANUARY INDICES TO SEE IF TREND CONTINUES.

SPEAKING EARLIER IN WEEK IN EASTERN FRANCE, FOURCADE SAID UNEMPLOYMENT HAD REACHED "A" LEVELLING-OF STAGE" IN MID-DECEMBER AND SHOULD BEGIN TO DECLINE IN COMING WEEKS. FOLLOWING THAT, FOURCADE SAID ECONOMIC GROWTH WILL ACCELERATE DURING SPRING MONTHS, EASING LABOR-MARKET CONDITIONS STILL FURTHER, HE ADDED THAT PRICES SHOULD RISE BY 7 TO 8 PERCENT IN 1976, AND THAT FRANCE "WILL RE-JOIN THE SMALL GROUP OF COUNTRIES ABLE TO MASTER THEIR PROBLEMS IN THE FACE OF CRISIS."

3. PROSPECTS FOR '76: SOME GOOD, SOME BAD--

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IN SPECIAL REPORT ON BUSINESS OUTLOOK AT YEAR'S END, INSEE (NATIONAL STATISTICS INSTITUTE) CITES GENERAL VIEW THAT CONDITIONS ARE RIPE FOR AN ECONOMIC UPTURN IN THE FIRST HALF OF 1976, BUT THAT DROP IN CORPORATE PROFITS DURING 1975 COULD WIEGH HEAVILY AGAINST INVESTMENT AND EMPLOYMENT PERSPECTIVES.

ACCORDING TO THE INSEE SURVEY HOUSEHOLD CONSUMPTION SHOULD CONTINUE TO EXPAND DURING FIRST HALF; TOGETHER WITH RECENT FIRING IN FOREIGN DEMAND, THIS EXPECTED TO RAISE PRODUCTION IN CONSUMER-GOODS SECTOR BY MID -1976 TO A LEVEL SOME 6 TO 7 PERCENT ABOVE THAT IN SEPTEMBER, OR ROUGHLY EQUAL TO THAT IN MID-1974. PRODUCERS OF CAPITAL EQUIPMENT EXPECT SOME INCREASE IN DOMESTIC DEMAND BUT LITTLE OR NO CHANGE IN FOREIGN ORDERS. A PARTIAL "THAW" IN INDUSTRIAL ORDERS ANTICIPATED FOR 1976, LINKED TO THE DEGREE OF REVIVAL IN BUSINESS ACTIVITY. AN INCREASE OF SOME 15 PERCENT IN PRODUCTION OF INTERMEDIATE GOODS DURING THE FIRST HALF IN FORECAST ON THE BASIS OF AN END TO INVENTORY LIQUIDATIONS BY PRODUCERS.

THE MORE SOMBER SIDE OF INSEE'S REPORT CONCERNED CORPORATE PROFITS, SAID TO HAVE DECLINED MUCH MORE SEVERELY IN FRANCE THAN ELSEWHERE. IN SUCH CIRCUMSTANCES PRIVATE-SECTOR EXPENDITURES IN PRODUCTIVE INVESTMENT HAVE WHOWN ONLY FAINT SIGNS OF REVIVAL, PUTTING DAMPER ON PROSPECTS FOR ANY INCREASED HIRING BEFORE MID-YEAR 1976. MOREOVER, EXPECTATIONS OF HIGHER INDUSTRIAL PRICES (TO RE-ESTABLISH PROFIT MARGINS AS WELL AS TO MEET HIGHER WAGE BILLS) ARE REPORTEDLY MATCHING OUTLOOK FOR GREATER ECONOMIC ACTIVITY. THUS, ACCORDING TO INSEE, PRICE INFLATION MAY WELL FLARE UP AGAIN NEXT YEAR AND SO JEOPARDIZE COMPETITIVENESS OF FRENCH INDUSTRY IN FOREIGN MARKETS.

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PASS TREASURY AND FEDERAL RESERVE

BANK OF FRANCE REPORT ON BUSINESS OPINION IN
DECEMBER INDICATED INCREASING OPTIMISM ON THE PART
OF INDUSTRIALISTS THANKS TO RECENT FIRMING OF INTERNAL
DEMAND, WITH ESPECIALLY FAVORABLE PROSPECTS NOTED
IN CONSUMER-GOODS SECTOR. BUSINESSMEN DO NOT EXPECT
SUBSTANTIAL ECONOMIC EXPANSION FRANCE BEFORE
SPRING, HOWEVER, AND THUS PLAN TO KEEP THEIR PRODUCTION
AT LEVELS WHICH WOULD MATCH DELIVERIES AND
PRECLUDE ANY INVENTORY ACCUMULATION OVER COMING
MONTHS. MANY PLANTS EXPECTED TO CLOSE DOWN DURING
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THE YEAR-END HOLIDAYS. GIVEN PRESENT HIGH LEVELS OF
EXCESS CAPACITY IN FRENCH INDUSTRY, ORDERS FOR CAPITAL
EQUIPMENT COULD CONTINUE TO BE RECEIVED, BUT FOR
DELIVERY FAR INTO THE FUTURE -- A REFLECTION OF
ANTICIPATORY RE-TOOLING RATHER THAN OF ANY PLANT
EXPANSION. SOME SIGNS POINT TO SLIGHT IMPROVEMENT
IN EXPORT PROSPECTS IN VIEW OF IMPROVING ECONOMIC
CONDITIONS IN SOME OF FRANCE'S TRADING PARTNERS,
AS WELL AS OF RECENT RISE IN EXCHANGE RATE OF THE
DOLLAR.

MONTHLY INSEE SURVEY OF BUSINESSMEN CONDUCTED
DURING FIRST HALF OF DECEMBER INDICATED RECENT PRODUCTION
INCREASES-- AS WELL AS A PARALLEL RISE IN PRICE
EXPECTATIONS--IN BOTH CONSUMER-GOODS AND INTERMEDIATE-
GOODS SECTORS; EVEN LONG-SLUGGISH CAPITAL EQUIPMENT
SECTOR HAD REGISTERED SOME INCREASES IN OUTPUT.
OVERALL INVENTORIES OF FINISHED GOODS HAVE

DECLINED TO NORMAL LEVELS. LEVEL OF UNFILLED ORDERS
REMAINS WEAK BUT HAS SHOWN "SHARP IMPROVEMENT" OVER
COURSE OF PAST TWO MONTHS.

4. INFLATION MODERATES IN NOVEMBER--

RETAIL PRICES ROSE BY 0.6 PERCENT IN NOVEMBER,
MAKING IT THE LEAST INFLATIONARY MONTH IN NEARLY TWO
YEARS. INSEE CONSUMER PRICE INDEX (1970 EQUALS 100)
SET AT 157.3 IN NOVEMBER, UP FROM 156.3 IN OCTOBER
AND FROM 143.1 IN NOVEMBER 1974. YEAR-OVER-YEAR PRICE
INFLATION (9.9 PERCENT) HAD THUS FALLEN BELOW THE
DOUBLE-DIGIT LEVEL FOR THE FIRST TIME SINCE DECEMBER
1973, SUGGESTING THAT A FIGURE OF ABOUT 9.7 PERCENT
MAY BE REGISTERED FOR 1975 AS A WHOLE. FOR THE THREE-
MONTH PERIOD ENDING IN NOVEMBER CPI HAD INCREASED
AT ANNUAL RATE OF 9.1 PERCENT, ROUGHLY THE SAME
AS FOR THE THIRD QUARER.

MODERATION IN NOVEMBER PRICES MADE POSSIBLE BY
DECELERATION IN RETAIL FOOD PRICES (FROM 1.1 PERCENT
DURING SEPTEMBER TO 0.6 PERCENT DURING NOVEMBER).
PRICES FOR SERVICES ROSE 0.8 PERCENT , AS THEY HAD
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IN OCTOBER , WHILE RETAIL PRICES FOR MANUFACTURED
GOODS INCREASED 0.6 PERCENT.

5. UNEMPLOYMENT CONTINUES TO RISE--

THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY-
ADJUSTED) INCREASED NEARLY 3 PERCENT DURING NOVEMBER
TO 925,700 AT MONTH'S END; ON UNADJUSTED BASIS THE
NUMBER OF JOBLESS ROSE LESS THAN ONE PERCENT, TO
1.02 MILLION. ON BASIS OF AVAILABLE DATA, WE ESTIMATE
SEASONALLY-ADJUSTED UNEMPLOYMENT IN NOVEMBER AT
ROUGHLY 4.2 PERCENT OF THE LABOR FORCE (SEE PARIS
A-322 FOR METHODOLOGY).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS, END-OF-MONTH)

	JUN	JUL	AUG	SEP	OCT	NOV
REGISTERED						
UNEMPLOYED	877.5	884.9	864.2	882.4	900.0	925.7

	JUN	JUL	AUG	SEP	OCT	NOV
UNFILLED						
JOB OFFERS	103.3	102.5	102.7	105.3	101.2	99.2

UNEMPLOYMENT

AS PERCENT OF
LABOR FORCE
(ESTIMATE)

4.0 4.0 3.9 4.0 4.1 4.2

FRENCH UNEMPLOYMENT SITUATION CURRENTLY APPEARS
TO BE UNDERGOING "GRADUAL DETERIORATION" IN COMPARISON
WITH STEADY WORSENING DURING FIRST HALF OF YEAR AND
LEVELLING-OFF DURING SUMMER MONTHS. MOREOVER, NUMBER
OF UNFILLED JOB OFFERS HAS DROPPED SHARPLY IN PAST
TWO MONTHS, ERASING LATE-SUMMER GAINS AND RETURNING
TO LEVELS OF FIVE YEARS AGO. THIS TREND IS LIKELY
TO CONTINUE AS EMPLOYERS SEEK TO RESTORE NORMAL
WORKING HOURS FOR THEIR EXISTING LABOR FORCE,
RATHER THAN TAKE ON NEW WORKERS, IN ORDER TO MEET
ANY INCREASES IN PRODUCTION DURING COMING MONTHS.
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6. TRADE DEFICIT NARROWED IN NOVEMBER--

DUE TO SHARP INCREASE IN EXPORTS, FRANCE'S
MONTHLY TRADE DEFICIT WAS HALVED FROM 1.6 BILLION
FRANCS IN OCTOBER TO 750 MILLION FRANCS IN NOVEMBER
(SEASONALLY ADJUSTED, FOB-FOB). EXPORTS ROSE 6.1
PERCENT-- THE LARGEST MONTHLY INCREASE IN ONE YEAR--
TO FF 19.3 BILLION IN NOVEMBER. IMPORTS WERE UP
1.4 PERCENT TO FF 20 BILLION. SEASONALLY-ADJUSTED
RATE OF EXPORT COVER WAS 96.3 PERCENT OF IMPORTS (UP
FROM 92 PERCENT IN OCTOBER), AND CUMULATIVE
SEASONALLY-ADJUSTED TRADE SURPLUS FOR FIRST

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P R 301649Z DEC 75

FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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11 MONTHS OF 1975 WAS CUT BACK TO FF 6.3 BILLION.

FRENCH FOREIGN TRADE

(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS, FOB-FOB)

	JUN	JUL	AUG	SEP	OCT	NOV
IMPORTS	17.6	18.8	17.6	18.4	19.7	20.0
EXPORTS	18.8	19.6	18.9	18.5	18.2	19.3
BALANCE	1.2	0.8	1.2	0.1	-1.6	-0.7

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ON UNADJUSTED BASIS, TRADE ACCOUNT WAS IN SURPLUS BY FF 71 MILLION IN NOVEMBER, YIELDING CUMULATIVE YEAR-TO-DATE SURPLUS OF FF 6.5 BILLION. FOREIGN TRADE MINISTER SEGARD ATTRIBUTED IMPROVEMENT IN NOVEMBER TRADE ACCOUNT TO "RECOVERY" OF FRENCH EXPORTS, NOTABLY THOSE TO WEST GERMANY, ITALY AND THE U.S. NEVERTHELESS, HE SAID FOREIGN SALES OF FARM PRODUCTS AND FOODS REMAIN WEAK, WHILE THOSE OF CONSUMER GOODS "ARE MARKING TIME" AND CAPITAL-EQUIPMENT EXPORTS ARE AT HIGH LEVELS.

7. SAVINGS RATES MODIFIED FURTHER --

FOLLOWING MOVES TAKEN IN EARLY DECEMBER BY

FINANCE MINISTRY TO MODIFY SAVINGS STRUCTURE IN FAVOR OF LONGER-TERM DEPOSITS (REFTEL), NATIONAL CREDIT COUNCIL ANNOUNCED DECEMBER 17 THAT SIMILAR ADJUSTMENTS TO BE MADE FOR SAVINGS DEPOSITS WITH COMMERCIAL BANKS. INTEREST PAID ON SUCH ACCOUNTS TO BE REDUCED IMMEDIATELY FROM 7.0 TO 6.5 PERCENT, A RATE IDENTICAL TO THAT NOW SET FOR SAVINGS-BANK DEPOSITS. AT THE SAME TIME, CEILING FOR FIXED-TERM DEPOSITS WITH COMMERCIAL BANKS (ABOVE WHICH INTEREST RATES MAY BE SET AT BANK'S DISCRETION) RAISED FROM 100,000 FRANCS TO 200,000 FRANCS, WHILE MATURITY OF SUCH REGULATED DEPOSITS EXTENDED FROM ONE TO TWO YEARS. WITHIN SUCH LIMITS, NEW SCALE OF INTEREST RATES (RANGING FROM 3.0 TO 7.5 PERCENT PER ANNUM) ESTABLISHED FOR BOTH FIXED-TERM DEPOSITS AND SHORT-TERM BONDS (BONS DE CAISSE), THUS INCREASING ATTRACTIVENESS OF LONGER-TERM DEPOSITS.

ALSO ON DECEMBER 17, THE BANQUE NATIONALE DE PARIS LOWERED ITS BASE LENDING RATE FROM 8.8 TO 8.6 PERCENT. IT WAS THE SIXTH SUCH REDUCTION SINCE THE BEGINNING OF 1975, WHEN THE RATE HAD STOOD AT 12.4 PERCENT. THE FOLLOWING DAY, THE NATIONAL CREDIT COUNCIL ANNOUNCED THAT ITS RATE FOR LONG-TERM CREDITS WOULD BE REDUCED FROM 11.5 TO 10.5 PERCENT, EFFECTIVE JANUARY 1.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -
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TELEGRAMS

33484 FOURCADE STATEMENT INTERNATIONAL
MONETARY NEGOTIATIONS 12/23/75

33620 SHORT-TERM FORECAST OF FRENCH
ECONOMY 12/24/75

AIRGRAMS

A-530 FRENCH INDUSTRIAL POLICY
AND U.S. INVESTMENTS IN
FRANCE 12/16/75

A-537 FRENCH FOREIGN EXCHANGE
HOLDINGS 12/19/75
GAMMON

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